

REPORT NO.

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SUBJECT

Alterations in the Tobacco Industry

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1. The Communists have made radical changes in the Chinese tobacco industry from the growing of the leaf through the sale of the finished commodity. The farmers are encouraged now to grow tobacco, especially the Virginia-type, flue cured, but are permitted to sell the leaf to government buyers only. The farmers in Shantung province were paid about five thousand JMP's or US\$0.20 per pound for their tobacco from the 1951 crop. The Communists have eliminated all private buying of leaf tobacco since this operation is now handled exclusively by a government agency which also allocates the leaf to tobacco manufacturers. The buying agency sold the 1951 crop to manufacturers at six thousand JMP's per pound, regardless of whether the leaf was Virginia-type, flue cured or the native varieties.
2. There likewise has been considerable change in the manufacturing portion of the industry, since all small and marginal plants have been forced out of business because of insufficient quantities of leaf or excessive taxation. Communist authorities have permitted no new tobacco plants to begin operations, and have moved several existing facilities from Shanghai and Tsingtao to interior tobacco growing provinces, such as Honan and Hunan. The new regime has completely altered the system of distribution through the establishment of a government organization which sells all tobacco products whether they be snuff, cigarettes, or whatever. This alteration in distribution has eliminated thousands of tobacco products wholesalers, dealers, and similar middlemen.

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present year's crop was being estimated at 225 million pounds, this figure to include production in Shantung, Anhwei, Honan, and Hunan provinces. The merchants predict that the Communists will have a small quantity of native tobacco available for export from the 1952 crop, but the asking price of US\$0.50 per pound FOB Shanghai will prevent its sale. There will be no Chinese-grown, Virginia-type, flue-cured tobacco for export since the entire production of this variety is consumed domestically.

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4. The Chinese Communist government concluded a barter deal with India during 1951 whereby the Peiping regime received 60 thousand bales, or about 15 million pounds, of Indian flue-cured tobaccos and stems for unknown Chinese goods. The tobacco was transported to Communist ports in Polish bottoms, and rumor had it that a similar deal was under consideration for 1952. The Communist government does not issue import licenses for non-flue-cured tobaccos, cigarettes, and cigarette paper although some exceptions to this policy were allowed in the summer of 1951 for the purchase of US cigarette paper from Hong Kong dealers. China is almost self-sufficient in cigarette paper production as the Meng Fung Cigarette Paper Company, location unknown, normally produces at least 70 per cent of the country's requirements. I have no information on cigarette production in China nor any data as to the quantity allocated to the armed forces.

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